

**CLAY COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2013

**CLAY COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

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INTRODUCTORY SECTION

**CLAY COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

BOARD OF DIRECTORS

JUNE 30, 2013

Jamey Allen
Brandon Boone
Natalie Boone
Pamela Breeding – Vice Chairman
Kristy Copas
Ernest Garrison
Joe Lynn – Chairman
Wayne Rich
Timmie Scott

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Clay County Emergency Communications District
Celina, Tennessee

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of Clay County Emergency Communications District, a component unit of Clay County, as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Clay County Emergency Communications District, a component unit of Clay County, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historic context. My opinion on the basic financial statements is not affected by this missing information.

Other information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Clay County Emergency Communications District's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the other supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated December 11, 2013, on my consideration of Clay County Emergency Communications District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters.

The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clay County Emergency Communications District's internal control over financial reporting and compliance.

Joel D. Parks, P.C.

December 11, 2013

**CLAY COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**Statement of Net Position
June 30, 2013**

ASSETS

Current assets:

Cash	\$ 367,074
Investments	53,353
Receivables	31,097
Accrued interest	160
	<u>451,684</u>

Noncurrent assets:

Building and equipment, net of accumulated depreciation	<u>266,512</u>
	<u><u>\$ 718,196</u></u>

NET POSITION

Net invested in capital assets	\$ 266,512
Unrestricted	<u>451,684</u>
	<u><u>\$ 718,196</u></u>

See Accompanying Notes to Financial Statements

**CLAY COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**Statement of Revenues, Expenses and
Changes in Net Position**

For the Fiscal Year Ended June 30, 2013

Operating revenues	
Emergency telephone service charges	\$ 69,799
State - shared wireless charges	22,349
State - operational funding	201,022
Miscellaneous income	1,255
Total operating revenues	<u>294,425</u>
Operating expenses	
Contracted services	
Addressing and mapping	9,819
Advertising	524
Audit services	2,100
Impact payments	119,522
Legal services	1,500
Lease/rental	
Online subscription - reverse 911	3,059
Maintenance/repairs	
Communications equip	2,181
Building and facilities	995
Vehicles	307
Supplies and materials	
Office supplies	681
Postage	200
Small equipment	2,177
Uniforms & shirts	340
Utilities - gas	314
Utilities - general telephone	13,369
Other charges	
Premiums on surety bonds	1,174
Dues and memberships	300
Insurance-liability	6,918
Training	6,530
Travel	748
Depreciation	57,838
Total operating expenses	<u>230,596</u>
Operating income	<u>63,829</u>
Non-operating revenues & (expenses)	
Interest income	1,149
Tennessee Emergency Communications Board - grants and reimbursements	18,000
Total non-operating revenues (expenses)	<u>19,149</u>
Capital contributions	
Tennessee Emergency Communications Board - grants and reimbursements	<u>138,057</u>
Change in net assets	221,035
Total net assets, beginning	<u>497,161</u>
Total net assets, ending	<u>\$ 718,196</u>

See Accompanying Notes to Financial Statements

**CLAY COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2013

Cash flows from operating activities

Cash received from surcharges and other revenues	\$ 294,265
Cash paid to suppliers of goods and services	(47,431)
Net cash from operating activities	<u>246,834</u>

Cash flows from noncapital financing activities

State board grants and reimbursements	<u>18,000</u>
Net cash from capital and related financing activities	<u>18,000</u>

Cash flows from capital and related financing activities

Acquisition of capital assets	(211,086)
State board grants and reimbursements	<u>138,057</u>
Net cash used by capital and related financing activities	<u>(73,029)</u>

Cash flows from investing activities

Interest received	1,149
Purchase of investments	<u>(477)</u>
Net cash from investing activities	<u>672</u>

Net increase in cash	192,477
Cash, beginning	<u>174,597</u>
Cash, ending	<u>\$ 367,074</u>

**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities**

Operating income	\$ 63,829
Adjustments to reconcile operating income to net cash from operation activities	
Depreciation	57,838
Increase in operational accounts receivable	(21,393)
Increase in accrued interest	(160)
Decrease in deposits	<u>146,720</u>
Net cash from operating activities	<u>\$ 246,834</u>

Noncash investing, capital, and financing activities:

For the year presented, there were no noncash transactions that would require disclosure.

See Accompanying Notes to Financial Statements

**CLAY COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Clay County Emergency Communications District (the District) have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant accounting policies.

A. The Reporting Entity

The District is a Board created under county resolution. The Board is engaged in providing emergency communication services to district members. The Chairman and Board of Directors manage the District.

The District is a component unit of the primary government, Clay County, Tennessee (the County). The County appoints the members of the District's governing board. The District is fiscally dependent on the County for approval of most debt issuance and the County Commission has the ability to adjust the District's service charges.

B. Measurement Focus/Basis of Accounting

The District utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with the District's activities are reported.

The District is a single-enterprise proprietary fund and uses the accrual basis of accounting. Proprietary funds are used to account for operations that are financed in a manner similar to private business enterprises and that a periodic determination of revenues earned, expenses incurred and/or change in net assets is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the District are service fees assessed to county residents on their monthly residential and business phone bills and amounts received from the State of Tennessee for service fees assessed to cell phone users.

**CLAY COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

B. Measurement Focus/Basis of Accounting (Cont.)

Operating expenses include the cost of providing a simplified means of securing emergency services by telephone to those persons living within the County, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Capital Assets

The District defines capital assets as assets with an initial, individual cost of \$500 or more and an estimated useful life in excess of five years. Capital assets purchased by the enterprise fund are presented on the balance sheet at cost and offset by an accumulated depreciation account. Depreciation is calculated using the straight-line method over the estimated life of the assets, which is generally five years for equipment and twenty years for building improvements. For assets constructed by the District, cost includes interest incurred during the construction period and other carrying costs. When assets are disposed of, the cost and related accumulated depreciation is removed from the accounts, and any gain or loss is recorded in operations. Long-term liabilities to be shown on the books of the Enterprise Fund when incurred represent specific obligations to be paid from the specific revenues of that fund.

D. Risk Financing

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains commercial insurance coverage on each area of risk. Exposure is limited to claims in excess of standard policy limitations. The District annually reviews its insurance needs based on claims and/or potential claims to minimize exposure. There were no claims in excess of insurance coverage during the past three years. The District's attorney has stated that a claim has been filed seeking in excess of \$75,000. A projected outcome of this case cannot be determined.

NOTE 2 - CASH AND INVESTMENTS

Cash as reported is comprised of one checking account. The District's carrying amount of deposits was \$367,074 and the bank balance was \$376,666. Investments consist of certificates of deposit with original maturities of greater than three months. Policy dictates that collateral meet certain requirements, such as, securities be deposited into an escrow account in another institution for the benefit of the District. However, due to oversight following the sale of land, the District failed to ensure that sufficient securities were pledged in the District's name to fully collateralize the District's funds. Unsecured cash held with one local depository amounted to \$126,666.

**CLAY COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

NOTE 3 - CAPITAL ASSETS

Capital assets activity of the District for the year ended June 30, 2013 was as follows:

<u>Asset</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<u>Capital assets being depreciated:</u>				
Building	\$ 8,982	\$3,279	\$ -	\$12,261
Equipment	524,893	207,807	156,091	576,609
Surveying and mapping	74,609	-	-	74,609
Total	<u>608,484</u>	<u>211,086</u>	<u>156,091</u>	<u>663,479</u>
<u>Accumulated depreciation</u>				
Building	4,595	749	-	5,344
Equipment	446,125	49,628	156,091	339,662
Surveying and mapping	44,500	7,461	-	51,961
Total	<u>495,220</u>	<u>57,838</u>	<u>156,091</u>	<u>396,967</u>
	<u>\$113,264</u>	<u>\$153,248</u>	<u>\$ -</u>	<u>\$266,512</u>

NOTE 4 – FUNDING SOURCES

Monthly fees provide funds for operations from service users in Clay County. The service suppliers in Clay County, Twin Lakes Telephone and North Central Telephone, collect the service fees and remit the funds to the District. The State of Tennessee remits to the District its share of wireless revenue.

NOTE 5 – BUDGET

The District is required by state statute to adopt a budget annually. The proprietary fund budget is prepared on a basis where current available funds must be sufficient to meet current expenses. Expenses may not legally exceed appropriations authorized by the Board of Directors, including authorized revisions. Budgetary control is exercised at the line-item level. Appropriations lapse at year-end.

OTHER SUPPLEMENTARY INFORMATION

**CLAY COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**Schedule of Revenues, Expenses and Changes in
Net Assets - Actual and Budget**

For the Fiscal Year Ended June 30, 2013

	Actual (Accrual Basis)	Budget (Accrual Basis)	Favorable (Unfavorable) Variance
Operating revenues			
Emergency telephone service charges	\$ 69,799	\$ 70,000	\$ (201)
State - shared wireless charges	22,349	19,105	3,244
State - operational funding	201,022	167,405	33,617
Miscellaneous income	1,255	-	1,255
Total revenues	<u>294,425</u>	<u>256,510</u>	<u>37,915</u>
Operating expenses			
Contracted services			
Addressing and mapping	9,819	11,569	1,750
Advertising	524	600	76
Audit services	2,100	2,700	600
Impact payments	119,522	153,522	34,000
Legal services	1,500	1,500	-
Mapping/data base consultants	-	6,400	6,400
Lease/rental			
Online subscription - reverse 911	3,059	3,100	41
Maintenance/repairs			
Communications equip	2,181	6,000	3,819
Building and facilities	995	1,000	5
Vehicles	307	1,000	693
Supplies and materials			
Office supplies	681	2,304	1,623
Postage	200	300	100
Small equipment	2,177	7,000	4,823
Uniforms & shirts	340	800	460
Utilities - gas	314	2,000	1,686
Utilities - general telephone	13,369	13,700	331
Other charges			
Bank charges	-	15	15
Dues and memberships	300	800	500
Insurance-liability	6,918	7,000	82
Premiums on surety bonds	1,174	1,200	26
Training	6,530	10,500	3,970
Travel	748	3,500	2,752
Depreciation	57,838	49,000	(8,838)
Total operating expenses	<u>230,596</u>	<u>285,510</u>	<u>54,915</u>
Operating income/(loss)	<u>63,829</u>	<u>(29,000)</u>	<u>92,830</u>
Non-operating revenues (expenses)			
Interest income	1,149	-	1,149
Tennessee Emergency Communications Board - grants and reimbursements	18,000	29,000	(11,000)
Total nonoperating revenues (expenses)	<u>19,149</u>	<u>29,000</u>	<u>(9,851)</u>
Net increase (decrease) in net assets	<u>\$ 82,978</u>	<u>\$ -</u>	<u>\$ 82,979</u>

INTERNAL CONTROL AND COMPLIANCE SECTION

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Clay County Emergency Communications District
Celina, Tennessee

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Clay County Emergency Communications District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Clay County Emergency Communications District's basic financial statements, and have issued my report thereon dated December 11, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Clay County Emergency Communications District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clay County Emergency Communications District's internal control. Accordingly, I do not express an opinion on the effectiveness of Clay County Emergency Communications District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify two deficiencies in internal control, described in the accompanying schedule of findings and responses as item 1 and 2 that I consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Clay County Emergency Communications District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed two instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses as items 3 and 4.

Clay County Emergency Communications District's responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. Clay County Emergency Communications District's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, I express no opinion on them.

This purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Joel D. Parks, P.C.

December 11, 2013

**CLAY COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Part I - Summary of Auditor's Results

1. An unqualified opinion was issued on the financial statements of the District.
2. The audit of the financial statements disclosed two significant deficiencies in internal control.
3. The audit disclosed two instances of noncompliance.
4. The District expended less than \$500,000 in federal awards.

Part II - Findings and Responses Reported in Accordance with *Government Auditing Standards*.

1. Segregation of Duties

The District continues to exhibit conflicting duties (e.g., receiving funds, preparing deposits, posting transactions, reconciling bank records and maintaining receivables and payables). The District, however, will likely be unable to fully overcome the weaknesses surrounding the invoicing, collection, depositing, posting and reconciliation of receipts without the involvement of additional personnel. The cost of hiring additional personnel solely for this function would likely exceed the benefits.

Recommendation

The District should strive to separate key accounting functions to the extent possible or, in absence of available personnel, adopt additional oversight policies to remove any perception of weak internal control.

Management's Response

We will work to improve the condition, but will be unable to fully correct it due to limited funding.

2. Maintenance of Accounting Records and Preparation of Financial Statements

As reported in the prior year, a significant number of adjusting and reclassifying entries to the Organization's accounting records were necessary to accurately reflect the operations for the year ended June 30, 2013. Additionally, management lacks the skills and knowledge to fully apply generally accepted accounting principles in recording the Organization's financial transactions and preparing its financial statements.

Recommendation

The Board should take steps to ensure the accounting records are posted such that the Board is not reliant on the audited financial statements for a complete picture of its financial position and operations. The Board should also consider obtaining, on a periodic basis, the services of a qualified accountant or accounting firm independent of the auditors, to oversee the application of the generally accepted accounting principles.

Management's Response

The Board will consider these recommendations.

3. **Finding: Budget Operations**

District officials failed to ensure that appropriations for each line item were sufficient to cover expenses. Depreciation exceeded appropriations by \$8,838. It should be noted that the Board approved budget amendments prior to year end; however, the extent of depreciation was underestimated.

Recommendation

The Board should ensure that all expenses are appropriated for in the annual budget.

Management's Response

This condition will be corrected.

4. **Finding: Failure to Adequately Secure Deposited Funds**

District officials failed to ensure that deposited funds in excess of F.D.I.C. coverage of \$250,000 were fully secure at all times. At June 30, 2013, unsecured funds amounted to \$126,666.

Recommendation

Management should take steps to ensure that all deposited funds in excess of F.D.I.C. coverage are fully secure at all times.

Management's Response

This condition will be corrected.

**CLAY COUNTY EMERGENCY
COMMUNICATIONS DISTRICT**

**DISPOSITION OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Prior Year Audit Recommendations Not Implemented

(REF: Annual Financial Report for the FYE June 30, 2012)

<u>Finding</u>	<u>Page</u>	<u>Subject</u>
1	17	Segregation of Duties
2	17	Preparation of Financial Statements
3	18	Budget Operations